

Strategy for Ensuring Economic Security of Commercial Organizations

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Abstract— The article presents a new approach to the formation of a strategy for the functioning of a commercial organization, based on ensuring its economic security. At the same time it is proposed to view the economic security in the context of three key determinants: the management component, finance, and counterparties. The types of strategies, strategic perspectives, and decision-making tools that contribute to the sustainable development of a company in the long run are justified.

Keywords—*economic security; strategy; commercial organization*

I. INTRODUCTION

Ensuring economic security is one of the main strategic objectives of a company. There is no explicit opinion concerning the definition of a „strategy“ in the scientific literature. R.I.Akmaeva [1] understands the strategy as specific long-term plan for a long-term goal achievement based on the condition that all changes in the environment are predictable, determinated, and are subject to complete control and management.

I.Ansoff [2] defines the strategy as one of the combinations of the rules for decision-making concerning the organization’s behavior. In the published works of A.Chandler [3] the strategy is viewed as a method for long-term organizational goal setting, for its action programme and the priority ways for resource allocation.

According to the definition given by G.B.Kleiner [4], the strategy is the complex of interconnected decisions determining the priority directions for the company’s resource and effort allocation for realization of its mission.

A.A.Thompson and A.J.Strinkland [5] understand the strategy as a set of actions and approaches to achievement of the defined performance indicators.

G.Minzberg [6] considers the strategy to be a kind of plan or a type of deliberately and purposefully designed subsequence of activities.

Thus, we understand the strategy as the general activity plan determining the priorities of strategic goals, resources and steps for strategic goal achievement. The key objective of a strategy is to bring the company from its present state into the state desired by the management for the future.

We have found out that, considering the development strategy of a company and accentuating on the most favourable one among them, which is the strategy of sustainable development, scientists do not pay due attention to the need to ensure the economic security of the company in the long term.

II. THE PARTICULARS OF THE STRATEGY GENERATION FOR A COMPANY’S ECONOMIC SECURITY PROVISION

We suggest the approach differentiating the company development strategies based on the feature worked out by us in the course of the research, which is the company’s economic security level.

In our opinion, it is possible to differentiate the strategies of the company’s functioning on the basis of assessing the level of economic security in a three-dimensional coordinate system (Figure 1), which shows the axes characterizing the development of the management component, finance and counterparties. Here we marked the points on each axis visualizing the levels of those determinants. Points A, B, and C describe high development level, while points D, E, and F describe poor level.

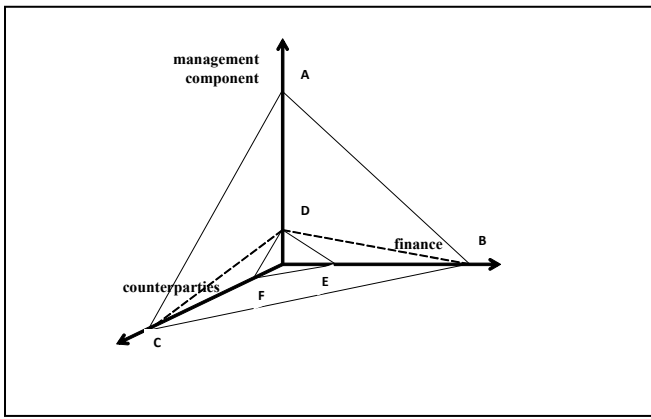


Fig. 1. Three-dimensional field for eight possible strategies prospects of a company's development

The condition of the company subject to the coordinates (A, B, C) reflects a high level of strategic economic security of the company, when the state of the company is characterized by a high level of development of the management component, high financial security, and high reliability of counterparties. The condition of coordinates (D, B, C) determines the moderate level of strategic economic security of the company, when the state of the company is characterized by a low level of development of the management component, but at the same time high financial security and high reliability of counterparties.

With the combination of points (D, E, F), a low level of strategic economic security of the company is revealed, when its condition is characterized by a low level of development of the management component, low financial security of the enterprise and low reliability of counterparties.

Combining the points reflected in Fig. 1, we can obtain eight different levels of economic security of the company, and consequently, eight different strategies for its functioning that fit within the three types of strategic prospects of the enterprise, depending on the defined level of economic security.

III. THE STRATEGY TYPES FOR PROVIDING COMPANY'S ECONOMIC SECURITY

For clarity, we present eight combinations of levels of financial security, reliability of counterparties, and the development of the management component in Figure 2, giving the name to each type of strategies for company's functioning based on the determination of the level of the company's economic security.

The sustainable secure development strategy is described by high company's economic security level with good development of all three key determinants. This is the best strategy type, following which the company is capable of providing sustainable permanent development despite the regularities of the life cycle.

Sustainable insecure development strategy is described by moderate level of economic security together with high level

of financial security and counterparties' reliability combined with poor development of the management component.

		Financial security level			
		high	low	high	low
Counterparties' reliability level	low	Sustainable insecure development strategy	Company revival strategy	Strategy of 'survival on the company's own effort'	Dangerous declining strategy (destruction)
	high	Sustainable secure development strategy	Temporary financial problem strategy	Strategy of 'survival despite managers'	Trust survival strategy
		high		low	
		Management component development level			

Fig. 2. The types of company's strategies based on the assessment of the development levels of economic security determinants

Company revival strategy is defined by low level of the company's economic security with high level of the management component development combined with low financial security and counterparties' reliability.

Temporary financial problem strategy is described by moderate level of economic security under the terms of high level of the management component development and counterparties' reliability but poor financial security.

The strategy of „survival on the company's own effort“ is defined by low level of economic security with poor development of the management component and counterparties' reliability combined with high financial security level.

The strategy of „survival despite managers“ is described by moderate level of economic security under the terms of poor management component development combined with high financial security level and counterparties' reliability.

Trust survival strategy is an attribute of a company with low level of economic security caused by poor management component development and financial security level combined with high counterparties' reliability.

Finally, the last and most unfavourable strategy, dangerous declining strategy (destruction), is defined by low level of economic security with low level of all three key determinants.

IV. STRATEGIC PROSPECTS OF COMPANY'S FUNCTIONING

It is worth noting that each of the eight above-mentioned strategies for company's operation corresponds to one of the proposed strategic prospects of a company. Strategic prospects are the ability of a company to maintain and improve its level of strategic economic security.

The first strategic prospect termed „sustainable secure development strategy“ is associated with the strategy of the same name.

The second strategic prospect which we called „sustainable insecure development strategy“ can be matched with three strategies including sustainable insecure development strategy; temporary financial problem strategy; and the strategy of „survival despite managers“.

The third strategic prospect named „company’s survival strategy” is associated with four strategies which are company revival strategy; the strategy of „survival on the company’s own effort”; trust survival strategy; dangerous declining strategy (destruction).

Thus, having performed the study of the possibility of forming various types of strategies for a company’s operation depending on the level of its economic security achieved, it was found that the change from one strategy to another is affected by the change in the level of the key determinant development. At the same time, the following dependence is traced - with a combination of highly developed key determinants, a company has the most favourable strategy ensuring sustainable permanent development, and vice versa.

As a result, if it is determined that a company has the first strategic perspective and the sustainable secure development strategy, then it can be said that the company is permanently developing in spite of the laws of the life cycle. At the same time, it is necessary to continuously monitor the status of the key determinants in order to detect threats to the company’s security and their timely elimination.

The second strategic prospect and its three associated strategies characterize the possibility of permanent sustainable development of the company, provided that high development level of one of the undeveloped determinants is achieved, along with systemic monitoring of the state of threats to the company’s economic security, which can also come from highly developed determinants.

The third strategic prospect with its four associated strategies of company’s functioning is far from the possibilities of its development. Here the main objective is the survival of the commercial organization in question. At the same time, if there is a goal of long maintenance of its activities, it is necessary to increase the development level of the key determinants one by one in the following logical sequence we have drawn out: (i) increase of the development level of the management component, (ii) the level of financial security, and (iii) improve the trustworthiness of counterparties.

V. INSTRUMENTS FOR DECISION-MAKING

As part of adjusting the strategy for improvement of the development level of a low-developed determinant of the company’s economic security or a combination of them, the development and implementation of a special, variable instrumentation is required.

We have studied each square of the matrix shown in the Fig.2 in order of assessment of the influence of each strategy on the company’s economic security level and of designing the instrumentation for its preservation or improvement.

We defined only one position of the company’s secure development which is square 1 characterized by high economic security level.

A. Square 1. The sustainable secure development strategy

The companies fitting square 1 are described by high level of management component development, equally high level of counterparties’ reliability and financial security.

At the same time, the level of economic security is as high as possible, which enables the company of steady development in the long run, mitigating the emergence of crisis situations and the subsequent decline in the cyclical development of the company, and ensuring its transition to a new level of its growth. Thus, the company needs to retain all the characteristics of the valuable position held, maintaining its own economic security at the achieved level. This is possible with constant monitoring of threats affecting the development level of the key determinants.

If the development level of one of the key determinants of economic security decreases, the strategic prospects of the company worsen and shift toward unsafe development.

In such case three more positions get opened in the matrix, describing the insecure development of a company – squares 2, 4, and 6, which define moderate level of company’s economic security.

B. Square 2. The sustainable insecure development strategy

It is typical for companies with high financial security and high level of management component development, but with poor counterparties’ reliability. This state is characterized by the high potential of the company, the absence or insignificant presence of threats to economic security from the management personnel and finances that form high level of development of financial security and management component which allow the company to develop steadily. At the same time the presence of unreliable counterparties presents certain threats to the economic security. This means that the basis for the toolset for ensuring the economic security of the companies occupying the position in square 2 of the matrix should be the measures to avoid contacts with unreliable partners and to replace them with organizations economic monetary contacts with which will not endanger the economic security of the company. Meanwhile, it remains important to constantly monitor and maintain the achieved high development level of the management component and financial security of the company.

So, after changing the counterparties and thus providing for higher level of the counterparties’ reliability and with stable development levels of the other key determinants the company can secure its transition from its position in square 2 of the matrix into the best square 1 „Sustainable secure development strategy”. In this case the company’s economic security level will grow from moderate to high.

If the company does not apply the required toolset, it may remain in square 2 with unchanged and low level of the counterparties’ reliability or move to squares 3 or 5 through reducing its financial security level or the development level of the management component. In this case the company’s economic security level will remain the same or reduce down to low level.

C. Square 4. The temporary financial problem strategy

The companies fitting square 1 of our matrix prefer aggressive development policy or otherwise belong to the sector of economy which grows fast. Due to the substantial costs of increasing the assets, even with the payment of small dividends or their complete absence, they can not maintain high growth rates solely from their own resources. The management of such companies sticks to a strategy, which implies development not only at the expense of retained earnings, but also on the basis of issuing new shares and raising additional borrowed funds. It is especially worthwhile, if rapid growth is an indispensable condition for achieving strategic competitive advantages and the profitability of new investments exceeds the cost of required capital. It is a quite favourable operational strategy, where well-developed management component and reliable counterparties promote certain breakthrough in the company's development. As an instrument for ensuring a high level of economic security, the enterprise achieves a higher level of financial security by eliminating threats in the field of this determinant. By means of improvement of the financial security level and with constant monitoring and maintenance of high development level of the management component and counterparties' reliability the company can pass into square 1, thus providing for high level of its economic security.

In the opposite case, if no change takes place, the company remains in the occupied square 4, or, in case of drop in counterparties' reliability or in the management component development level, it may transfer to squares 3 or 7 which are described by low economic security level.

D. Square 6. The strategy of 'survival despite managers'

It is typical for companies with high financial security and high level of counterparties' reliability, but with poor management component development. As a result, because of the low level of the management component development the company might reduce the level of its financial security and lose the reliable counterparties, thus transferring to squares 5, 7, or 8. On order to prevent it, it is important to immediately improve the development level of the management component. This is possible with the use of the following tools: elimination of threats to the economic security of the company with regard to this determinant or, as the last resort, replacing the key management of the company, for example, commercial director, financial director, chief accountant, production manager, or all of them with more efficient managers.

As a result, the company may transfer to square 1, thus providing for high level of its economic security.

Without applying any means for improvement of the management component the company may remain in square 6 in case of unchanging situation; or, in case of worsening of the counterparties' reliability or financial security level, it may move to squares 5 or 7, described by low economic security level.

We also identified four positions where the company's main objective is just survival, and they are squares 3, 5, 7, and 8 characterized by low economic security level.

E. Square 3. The company revival strategy

It is described by low level of counterparties' reliability and financial security combined with high level of management component development, which, with some effort, is capable of reviving the company and providing for its secure development. When recommending the use of a special toolset to ensure the economic security of the company, we are relying on the high level of management personnel. Namely, by applying efforts to improve financial security, management personnel can facilitate the transition of the company into square 2 of the matrix, and by increasing the level of reliability of the counterparties it will ensure the transition to square 4. In both cases low level of economic security would change to moderate one.

If the company's management does not put effort in improvement of the economic security level, the position of the organization may remain the same or worsen to the conditions of square 8.

F. Square 5. The strategy of 'survival on the company's own effort'

It is typical for the companies with high level of financial security management with poor development of the component development and equally poor counterparties' reliability. The company avoids bankruptcy due to consistently high financial security level obtained not by means of effective management but through the potential accumulated earlier. The main tools to increase the economic security level of the company in this case is, first of all, the measures to increase the development level of the management component, through to the replacement of all or part of the management personnel, which can help to move the company's position to square 2 of the matrix, ensuring change of low economic security level for moderate level. The second option to increase the economic security level of such company is to change the low level of counterparties' reliability to good level, which will allow transition to square 6 of the matrix. It is worth noting that the second option is rather unlikely, due to impossibility of replacement of nearly all counterparties under ineffective management.

Meanwhile, if no effort is put in improvement of the strategic economic security level, the position of the organization may remain the same or worsen to the conditions of square 8.

G. Square 7. The trust survival strategy

The companies fitting this square of the matrix either have not achieved the required level of profitability due to rapid growth of their business, or can not achieve it because of poor development level of the management component, which implicates low financial security level. At the same time the counterparties' security level is high which means that remembering the previous merits the reliable partners continue to trust the company and cooperate with it even though they see the present problems and threats. The consequence of this situation is the acute need for external financing, caused by the growing shortage of funds. In this case, first of all, it is necessary to increase the management level of the company,

which will allow to move to square 4 of the matrix, ensuring the change of low level of economic security to moderate one.

The other variant of events can be the replacement of low financial security level with high level, ensuring transition into square 6 of the matrix. For this, the management needs to change the pricing and cost management policies, balance investment, operational and financial activities, and, if necessary, perform business restructuring, get rid of non-core assets and unprofitable lines. At the same time we should note that this second option is rather unlikely, due to impossibility of improvement of financial security level under ineffective management.

If no effort is put in improvement of the strategic economic security level, the position of the company may remain the same or worsen to the conditions of square 8.

The extreme measure of termination of such situation is the sale of the whole business or its division.

H. Square 8. The dangerous declining strategy (destruction)

The companies in this position need to try and transfer to square 3 „The company revival strategy“ by means of improvement of the management component development level. It is possible in case of replacement of the top-management of the company, including commercial director, financial director, chief accountant, production manager, and others. In our opinion, it is useless to strive to increase the level of counterparties“ reliability or the company’s financial security under low development level of the management component, since ineffective management can not lead any company to a higher level of development. The extreme measure is termination of the „dying“ business and switching to new activities, or change of ownership.

So, the target point of application of the variable toolset for ensuring the company’s economic security is achievement and maintenance of the company’s position in square 1, using the sustainable secure development strategy. At the same time, it is necessary not only to keep the achieved position at any cost in square 1 „Sustainable secure development strategy“, but also to continuously plan, monitor, and evaluate the results provided systematic monitoring of the threats to the company’s economic security.

The value of the decisions made depends not only on the level of skills and competence of management personnel, but also on the promptness of actions based on professional assessment of the financial situation of the company and its counterparties, a clear understanding of the consequences of adopting each particular decision. At the same time, the infinite number of factors that cause some situation or another, the inconsistent sequence of events in time, the completeness and scale of information, the level of access to modern media and technical means of its delivery require not only an accurate attitude to the assessment of current events around and inside the company, but also the intuition required in such a case. Insufficient information about what is happening always increases the risk that accompanies any management decision made, and the task is to minimize it by obtaining a more complete picture of the object of management.

Meanwhile it should be remembered that obtaining additional information requires, as a rule, not only time, but also monetary expenditures.

The condition for the successful implementation of the decisions made is the blanket use of scientific approach in the course of their development, modern economic theory as a methodological basis for understanding current trends in the development of economic relations, the logic of economic decision-making, the application of quantitative analysis methods [7, 8]. The theory of economics is closely related to accounting, the organization of the company's finances, therefore ensuring the high quality of the management decision depends on knowledge of the principles of accounting reporting, the specifics of the accounting policy at the enterprise, and financial planning. The process of economic decision-making depends on the level of informational support, the ability of the managers to analyse the data obtained, and synthesize the variability of possible solutions on this basis [9].

In any case, all economic decisions made should not contradict existing legal norms and should possess legal validity. Currently, new laws are enacted that regulate the system of counteragent relations between the manufacturer and the consumer, the seller and the buyer. Introduction of legal restrictions in the sphere of economic relations of economic entities provides not only mutual understanding of counterparties, but also threatens violators with unavoidable fines or even with the decision to complete closing down the company’s operation.

VI. RESULTS

The entry into the world market requires of the managers deep knowledge and continuous study of legislative acts of business partner countries. Thus, legal protection of economic decisions requires knowledge of current legislation and only such decisions that take into account their compliance with existing legal acts.

An obligatory condition for the implementation of the decision is the feasibility of its implementation. This means that each decision must have a convincing economic justification, proved by all necessary calculations. The development strategy of any company can be successfully implemented only if such development is sufficiently provided with the required financial resources.

In this regard, it seems necessary to use the systems and methods for planning the transition of a company from one strategy to another, applying different types of plans, such as prospective, current and operational.

Each of these planning systems has specific methodological approaches to the implementation of planning, the form of implementation of results and the planning horizon (coverage period). All economic security planning systems, according to our understanding, are interrelated and implemented in a certain sequence.

Having identified the position of the company on the strategy matrix, it is necessary to assess the company's

opportunities to move to the most favourable square of the matrix in order to increase its economic security level.

To do this, the company should first of all carry out long-term planning of its economic security, which is designed to implement the strategic goals of the company's development, as well as to determine the tasks and parameters for the current planning. In turn, the current planning of economic security forms the plan objectives including the increase of the development level of one or several key determinants (management component, financial security, reliability of counterparties) within the next year, creates the basis for developing and communicating the operational budgets (or other operational plans) concerning all key determinants of company's economic security.

Obviously, after identifying the company's location in the most unfavourable position of the matrix designed by us (square 8), there may arise the desire to ensure its transition to the most favourable position (square 1). In this case, the system for planning the development of the key determinants of the company's economic security will be able to answer the question concerning the possibility of achieving such goals in the company development.

Next, in order to ensure practical achievement of high level of company's economic security, it is necessary to give preference to internal control over the implementation of managerial decisions made in this area.

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